

# **South Carolina Board of Economic Advisors**

## **Statement of Estimated State Revenue Impact**

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**Date:** April 28, 2008 (as amended April 23, 2008 by the Senate Finance Committee)

**Bill Number:** S.B. 1098

**Author:** Senator Alexander

**Committee Requesting Impact:** Senate Finance Committee

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### **Bill Summary**

A bill to amend Article 25, Chapter 6, Title 12 of the 1976 Code, by adding Section 12-6-3680, to provide a refundable tax credit to a recycling facility equal to the yearly amount expended by the recycling facility for electric service multiplied by one percent in the first year the credit is claimed, two percent in the second year, and increasing by two percent in the years thereafter up to a maximum of eight percent, and to provide that the credit shall only take effect if the annual February fifteenth forecast by the Board of Economic Advisors of annual general fund revenue forecasts growth that equals at least five percent of the most recent estimate.

### **REVENUE IMPACT <sup>1/</sup>**

This bill, as amended, is expected to reduce General Fund income tax revenue by \$2,293,222 in FY 2009-10 and an additional \$2,439,988 in FY 2010-11, \$2,593,799 in FY 2011-12, and \$2,754,955 in FY 2012-13.

### **Explanation of Amendment (April 23, 2008)**

This amendment removes the requirements that qualifying recycling facilities employ at least 100 people and produce over 50,000 tons of product for sale per year. It also changes the calculation of the refundable income tax credit amount to 1% of the electricity expenditures multiplied by the facility's recycled product content in the first year and then increases the credit percentage to 2%, 3%, and 4% in each consecutive year. Based upon a sample of recyclers, we estimate that 49.2% of the 94 recycling facilities identified by the Department of Commerce will qualify for the credit based upon the 50% recycled product content requirement. We project that the total electricity expenditures are \$303,738,009 for qualifying facilities and the average recycled product content is 75.5%. Based upon these figures, we estimate that the credit will apply to \$229,322,197 for FY 2009-10. A refundable income tax credit can be claimed in full regardless of income tax liability and any amount above the taxpayer's liability will be refunded. Therefore, we expect that the refundable credit at 1% of qualifying expenditures will reduce General Fund income tax revenue by \$2,293,222 in FY 2009-10. Additionally, the reduction in income tax revenue through out the phase-in period is expected to increase by \$2,439,988 in FY 2010-11, \$2,593,799 in FY 2011-12, and \$2,754,955 in FY 2012-13. The total General Fund income tax revenue reduction for the full 4% credit is estimated to be \$10,081,965 in FY 2012-13.

### **Explanation of Bill**

This bill would provide a refundable income tax credit to qualifying recycling facilities that use at least 50% pre-consumer or post-consumer recycled content in production, produce over 50,000 tons of product for sale per year from recycled material, and have at least 100 employees. Beginning July 1, 2009, qualifying recyclers are allowed a refundable tax credit of 1% of their annual expenditures for electric service. In the second year, the credit is increased to 2% and increases by an additional 2% each year to a maximum of 8%. The credit is only available in

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years in which the February 15<sup>th</sup> General Fund Revenue forecast made by the Board of Economic Advisors for the upcoming fiscal year is at least five percent greater than the current fiscal year's estimate. The most recent BEA estimate for the Long Range Plan forecasts that General Fund Revenue will be 6.5% greater in FY 2009-10 than in FY 2008-09, and therefore we currently anticipate that the credit will be available starting July 1, 2009. Based upon information provided by qualifying recyclers, we estimate that 14 facilities will qualify and project their electricity expenditures to be \$169,593,000 for FY 2009-10. A refundable income tax credit can be claimed in full regardless of income tax liability and any amount above the taxpayer's liability will be refunded. Therefore, we expect that the refundable credit will reduce corporate income tax revenue by \$ \$1,695,930 in FY 2009-10. Additionally, the total reduction in income tax revenue through out the phase in period is expected to increase by \$1,804,470 in FY 2010-11, \$3,724,426 in FY 2011-12, \$3,959,204 in FY 2012-13 and \$4,205,195 in FY 2013-14.



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<sup>1/</sup> This statement meets revenue impact requirements of Section 2-7-71 for a state impact by BEA, Section 2-7-76 for a local impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by Office of Economic Research (OER).